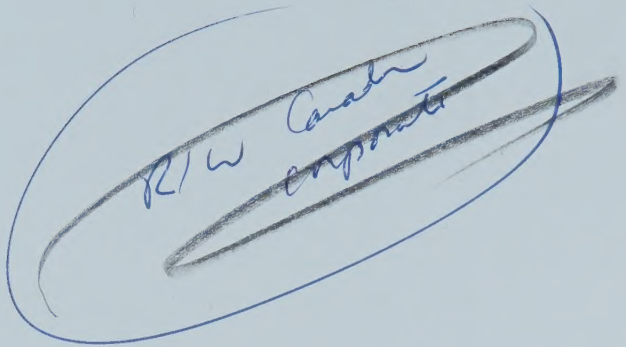


AR39



ANNUAL REPORT
YEAR ENDED JANUARY 31, 1968



GRAFTON-FRASER
LIMITED
Established 1853



GRAFTON-FRASER LIMITED

Board of Directors

*GEORGE A. CHATER, <i>Retired</i>	TORONTO
G. RICHARD CHATER, <i>President</i>	CAMPBELLVILLE
BRIG. W. PRESTON GILBRIDE, C.B.E., D.S.O., E.D., LL.D. <i>Chairman; Director, Gerling Global Insurance Group</i>	TORONTO
WILLIAM A. HEASLIP, <i>Vice President</i>	TORONTO
JAMES W. McCUTCHEON, <i>Partner, Shibley, Righton & McCutcheon</i>	TORONTO
STEWART PHILP, <i>Vice Chairman</i>	DUNDAS
JOHN B. RIDLEY, <i>Investor</i>	TORONTO
SAM FOSTER ROSS, Q.C., <i>Partner, Ross & Robinson</i>	DUNDAS
T. EDWARD TOPPING, <i>Vice President</i>	STOUFFVILLE
DOUGLAS C. WOOLLEY, <i>Partner, Cobban, Woolley & Dale</i>	TORONTO

Officers

W. P. GILBRIDE, <i>Chairman</i>
S. PHILP, <i>Vice Chairman</i>
G. R. CHATER, <i>President</i>
W. A. HEASLIP, <i>Vice President</i>
T. E. TOPPING, <i>Vice President</i>
J. H. EWART, C.A., <i>Treasurer</i>
G. A. REYNOLDS, C.A., <i>Secretary</i>
D. W. WYCKOFF, R.I.A., <i>Assistant Treasurer</i>

Transfer Agents and Registrar

CANADA PERMANENT TRUST COMPANY, TORONTO

Auditors

THORNE, GUNN, HELLIWELL & CHRISTENSON, TORONTO

*Deceased April 20, 1968

Directors' Report to the Shareholders

Major Event

A major event in the Company's history was the merging of the activities of Jack Fraser Stores and Grafton Stores. These two organizations were complementary geographically and from a merchandising standpoint. The means of accomplishing this merger was for Graftons 1853 Limited to purchase the net retail assets of Jack Fraser Stores Limited, and to change its name to represent the new arrangement. This purchase was completed on July 19, 1967 with an effective date of February 1, 1967.

From this merger of operations has evolved an outstanding management team, and the comparative, combined, condensed statements of income, and the comparative, combined, condensed balance sheets are set out below. It is particularly gratifying to note the substantial improvement in working capital, and the combined net income increase of 86% over the previous year.

All 1968 figures are audited Grafton-Fraser Limited figures. The figures used for comparison are the combined figures of Graftons 1853 Limited and Jack Fraser Stores Limited.

COMPARATIVE, COMBINED, CONDENSED STATEMENTS OF INCOME

	YEAR ENDED JANUARY 31		6 MONTHS ENDED JANUARY 31		6 MONTHS ENDED JULY 31	
	1968	1967	1968	1967	1967	1966
Sales	\$21,461,478	\$19,552,708	\$12,615,835	\$11,753,296	\$8,845,643	\$7,799,412
Income (loss) before taxes	521,739	252,829	817,666	391,510	(295,927)	(138,681)
Income taxes	253,000	108,637	349,700	158,637	(96,700)	(50,000)
Net income (loss).	<u>\$ 268,739</u>	<u>\$ 144,192</u>	<u>\$ 467,966</u>	<u>\$ 232,873</u>	<u>\$ (199,227)</u>	<u>\$ (88,681)</u>

COMPARATIVE, COMBINED, CONDENSED BALANCE SHEETS

	JANUARY 31	
	1968	1967
Current assets.	\$4,449,006	\$5,105,693
Current liabilities	2,511,573	3,873,276
Working capital	1,937,433	1,232,417
Other assets	62,905	70,724
Fixed assets (net)	843,353	881,622
Other liabilities	(846,700)	—
Deferred income taxes	(12,500)	
Deferred credits	(156,413)	(173,792)
Minority interest	(31,699)	(646,061)
GRAFTON-FRASER LIMITED SHAREHOLDERS' EQUITY	<u>\$1,796,379</u>	<u>\$1,364,910</u>

The following securities were issued in part payment for the acquisition of the net retail assets of Jack Fraser Stores Limited:

Notes	\$571,700
Preference Shares	207,000
Common Shares.	141,343
	<u>\$920,043</u>

Comments on Retail Divisions

Leased Departments

The entry of adequately financed and aggressively managed companies to the mass merchandising department store field has, over the past few years, revolutionized contemporary retailing. We are fortunate to participate in this dynamic growth industry by being a licensee for Men's and Boys' Apparel in association with a leading organization of this type in Canada. We were represented in twenty-two of their department stores from coast to coast at the year end. Five of these departments were opened during the past year, three more have been opened this spring, and we expect at least three additional departments will be opened during the balance of the year.

Jack Fraser Stores

There are twenty-three popular priced Jack Fraser Stores located mainly in shopping centres in or adjacent to large metropolitan areas. For over forty years, the name "Jack Fraser" has been synonymous with quality and value in Men's and Boys' Wear across southern Ontario. The merchandise mix in Jack Fraser and Grafton stores is complementary in many areas and the increased volume has greatly strengthened our combined buying power. We are actively researching new locations for this group.

Grafton Stores

Since the year end, the Grafton store in Owen Sound has been completely remodelled and a Ladies' Sportswear Shop added; the obsolete Kitchener store has been closed and, during the year, one small store was converted into a successful Jack Fraser store. The Grafton group now consists of eight large, new or remodelled stores featuring Men's and Boys' Wear in the popular and medium price ranges, with a comparatively small, but highly productive, Ladies' Sportswear Boutique in each.

The Ross Stores

This division presently consists of five junior department stores selling a broad range of soft goods. Four of the stores are located in the downtown section of centres in south-central Ontario and are major factors in the retail trade in their respective areas. Last year, three small stores were closed. The appointment of a General Manager, and other progressive steps, should make these stores more profitable.

Administration

The Company's executive, merchandising and accounting offices are located at 770 Lawrence Avenue West, Toronto, and an efficient warehouse is operated at this location. The merging, re-organizing and strengthening of the Company's procedures and policies has been substantially completed and should result in improved regional supervision at the store level and increased, centralized administrative control and decreased operating expenses.

The Future

The future, on both an immediate and long term basis, looks favourable, notwithstanding significant increases in interest rates, wages, services, property and corporate income tax. One new major Grafton store in the Burlington Mall and at least six new leased departments are planned for the current year, with three of the leased departments having already opened successfully. Sales for the first quarter have been ahead of last year and have exceeded our projection with the result that earnings are starting to reach a satisfactory level. The potential growth of the Company will require, at an appropriate time, the refunding of its outstanding short term notes, and this financing will anticipate further working capital requirements. We are seeking approval for the change of our fiscal year-end from January 31st to one early in January, which is more satisfactory from a merchandising point of view.

Appreciation

Our business is one of people and we are fortunate in having an experienced and dedicated team of retail specialists. Problems arising from the integration of the two companies required extra effort from all concerned, but with the outstanding cooperation and loyalty of our employees it has been accomplished with speed and efficiency.

Our supplier relationships are of almost equal importance, and we appreciate the cooperation and support we have received. We anticipate that our future growth will require even closer cooperation and mutual understanding.

On behalf of the Board

 *G.R. Lister* President

 *M.P. Gilbride* Chairman

Dundas, Ontario
May 6, 1968



GRAFTON-FRASER

LIMITED

and its subsidiary, Grafton's Limited

Consolidated Statement of Income and Retained Earnings

Year Ended January 31, 1968

(with comparative figures for 1967)

	1968	1967
Sales	\$21,461,478	\$3,312,558
Cost of sales and expenses other than undernoted	20,390,473	3,139,130
	1,071,005	173,428
Amortization of excess of book value of shares acquired of subsidiary company over cost (note 3)	17,379	—
	1,088,384	173,428
Interest on long term notes	33,845	—
Other interest and bank charges	201,583	12,349
Depreciation	108,611	47,248
Remuneration of directors and senior officers	221,021	53,992
	565,060	113,589
Income before income taxes.	523,324	59,839
Income taxes (note 3)		
Currently payable	243,500	8,000
Deferred	9,500	—
	253,000	8,000
Net income before interest of minority shareholders	270,324	51,839
Interest of minority shareholders in income	1,585	19,099
NET INCOME FOR THE YEAR.	268,739	32,740
Retained earnings at beginning of year as previously reported	\$5,039	
Deduct accumulated deferred tax January 31, 1967 (note 3)	3,000	
Retained earnings at beginning of year as restated	2,039	—
	270,778	32,740
Deduct		
Dividends		
Preference shares	46,821	21,612
Common shares	138,992	6,089
	185,813	27,701
RETAINED EARNINGS AT END OF YEAR	\$ 84,965	\$ 5,039



GRAFTON

LIM

(Incorporated under
and its subsidiary

Consolidated Balance Sheet

(with comparative figures for 1967)

ASSETS

CURRENT ASSETS

	1968	1967
Cash	\$ 17,425	\$ 62,919
Accounts receivable	750,950	415,192
Income taxes recoverable	—	20,320
Inventory, at lower of cost and net realizable value less normal profit margin	3,648,653	844,622
Prepaid expenses	31,978	4,535
	<u>4,449,006</u>	<u>1,347,588</u>

INVESTMENTS

Marketable securities (market value \$15,000; 1967, \$16,200)	22,905	21,405
Other securities	40,000	40,000
	<u>62,905</u>	<u>61,405</u>

FIXED ASSETS, at cost

Fixtures and equipment	1,478,917	842,847
Leasehold improvements	864,104	470,809
	<u>2,343,021</u>	<u>1,313,656</u>
Less accumulated depreciation	1,499,668	758,684
	<u>843,353</u>	<u>554,972</u>

\$5,355,264

\$1,963,965

Approved on behalf of the Board

G. K. Lister

Director

M. A. Eide

Director

FRASER

ED

(laws of Ontario)

Grafton's Limited

Set—January 31, 1968

(at January 31, 1967)

LIABILITIES

CURRENT LIABILITIES

Bank advances (note 1)	\$1,212,293	—
Accounts payable and accrued liabilities	914,277	\$ 383,532
Income and other taxes payable	260,003	6,500
7% Notes due February 1, 1968	125,000	—

2,511,573	390,032
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OTHER LIABILITIES (note 2)

846,700	—
---------	---

DEFERRED INCOME TAXES (note 3)

12,500	—
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DEFERRED CREDIT being excess of book value of shares acquired of subsidiary company over cost less amortization (note 3)

156,413	173,792
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INTEREST OF MINORITY SHAREHOLDERS in Grafton's Limited

31,699	35,231
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SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 4)

Authorized

50,000 6% Cumulative preference shares par value \$20, redeemable at \$21 each

100,000 Common shares, par value \$10 each

Issued

46,896 Preference shares (1967—36,386)	937,920	727,720
--	---------	---------

69,496 Common shares (1967—60,888)	694,960	608,880
--	---------	---------

1,632,880	1,336,600
-----------	-----------

CONTRIBUTED SURPLUS (note 5)

78,534	23,271
--------	--------

RETAINED EARNINGS

84,965	5,039
--------	-------

1,796,379	1,364,910
-----------	-----------

\$5,355,264	\$1,963,965
-------------	-------------

Demand Debenture (note 1)

Contingent Liability (note 6)

Long Term Leases (note 7)



GRAFTON-FRASER

LIMITED

and its subsidiary, Grafton's Limited

Notes to Consolidated Financial Statements

Year Ended January 31, 1968

1. Bank Advances

The bank advances are secured by the issuance of a general floating charge debenture of \$5,000,000 on the assets of the company and its subsidiary company payable on demand and a general assignment of accounts receivable.

The demand debenture, as well as being collateral security of bank advances, is collateral security in connection with guarantees of affiliated companies' bank loans (note 6).

2. Other Liabilities

7% notes

Due February 1, 1969	\$125,000
Due December 31, 1968 or December 31, 1969 at the company's option	400,000
Due December 31, 1969, payable at the company's option by delivery of 9,085 6% \$20 par preference shares (note 4)	181,700
Due December 31, 1972, convertible at the holder's option into 8,512 \$10 par common shares (note 4)	140,000
	<u>\$846,700</u>

3. Changes in Accounting Practice

a) Deferred income taxes

In the current year the basis of accounting for income taxes was changed to reflect deferred income taxes in the financial statements rather than by way of note as in the prior year. This practice has been adopted for consolidated statement purposes although the subsidiary company still shows the information by way of note.

Deferred income taxes accumulated to January 31, 1967 have been recorded by a transfer from retained earnings of \$3,000.

b) Excess of book value of shares acquired of subsidiary company over cost

In the year ended January 31, 1967 this account was reduced by \$22,783 for expenses incurred relating to the exchange offers.

In the current year the company transferred this item to a deferred credit and adopted the policy of amortizing it to income over ten years. The amount taken into income in the current year amounted to \$17,379.

4. Capital Stock

During the year 10,510 preference shares were issued of which 160 were issued in exchange for 160 Class A shares of Grafton's Limited. 10,350 preference shares and 8,608 common shares were issued as part payment for purchase of certain assets of the Jack Fraser Stores.

During the year ended January 31, 1967, 36,386 preference shares were issued in exchange for 34,514 Class A and 1,872 common shares of Grafton's Limited.

The company will have to obtain supplementary letters patent increasing its authorized preference shares should it decide to issue 9,085 preference shares in payment of a certain 7% note (see note 2).

The company has reserved 8,512 common shares should certain 7% note holders wish to exercise their option (see note 2).

5. Contributed Surplus

Balance at beginning of year	\$23,271
Contributed surplus arising on issue of 8,608 common shares	55,263
Balance at end of year	<u>\$78,534</u>

6. Contingent Liability

The company has guaranteed the bank indebtedness of affiliated companies and the company's demand debentures are also held by the bank as collateral security as set out in note 1. As at January 31, 1968 the bank indebtedness outstanding against this guarantee amounted to \$1,660,000.

7. Long Term Leases

Leases, including renewal options, extend into the year 1987 at a minimum annual rental exclusive of taxes, insurance and percentage-of-sales charges of approximately \$1,610,000. Rent for the year ended January 31, 1968 is \$1,447,000.

8. Comparative Statements

The comparative figures for 1967 in the consolidated financial statements have been reclassified to conform with the 1968 presentation.

9. Change of Company Name

During the year the company obtained supplementary letters patent authorizing the change of name from Graftons 1853 Limited.



GRAFTON-FRASER LIMITED

and its subsidiary, Grafton's Limited

Consolidated Statement of Source and Application of Funds

Year Ended January 31, 1968

SOURCE OF FUNDS

Operations

Net income for the year	\$ 268,739	
Add items not involving a current outlay of funds		
Depreciation	108,611	
Deferred income taxes (note 3)	9,500	
	<u>386,850</u>	
Less amortization of excess of book value of shares acquired of subsidiary company over cost (note 3)	17,379	\$ 369,471
Issue of 7% notes		846,700
Issue of shares		
Preference shares	207,000	
Common shares	141,343	348,343
		<u>1,564,514</u>

APPLICATION OF FUNDS

Purchase of certain assets, less liabilities assumed of Jack Fraser Stores		
Purchase price	1,200,000	
Current assets	\$3,669,710	
Less current liabilities assumed	<u>2,797,860</u>	
Fixed assets acquired		328,150
Other additions to fixed assets		70,674
Dividends		
Preference shares	46,821	
Common shares	138,992	185,813
		<u>584,637</u>
INCREASE IN WORKING CAPITAL		979,877
WORKING CAPITAL AT BEGINNING OF YEAR		957,556
WORKING CAPITAL AT END OF YEAR		<u>\$1,937,433</u>

Auditors' Report

To the Shareholders of Grafton-Fraser Limited:

We have examined the consolidated balance sheet of Grafton-Fraser Limited and its subsidiary, Grafton's Limited, as at January 31, 1968 and the consolidated statements of income and retained earnings, and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at January 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the changes described in note 3, with which we concur.

Toronto, Canada
May 6, 1968

THORNE, GUNN, HELLIWELL & CHRISTENSON
Chartered Accountants

Merchandising Group

L. A. Davison	Miss E. Dymock	R. O. Hutchinson
G. T. Kelly	J. R. Walker	Mrs. I. White

Retail Stores — Supervisor: A. L. Lucas

Jack Fraser Stores — Metropolitan Toronto

Agincourt Shopping Mall	Eglinton Square	Pape and Danforth
Cedar Heights Shopping Centre	Kipling Heights Shopping Centre	Weston Road
Eglinton—West Side Mall	Northtown Shopping Centre	Yorkdale Shopping Centre

Outside Metropolitan Toronto

Applewood Village	London, Argyle Mall	Richmond Hill, Richmond Hill
Belleville	Newmarket, Newmarket Plaza	Shopping Centre
Dundas, University Plaza	Oakville, Hopedale Shopping	St. Catharines, Niagara Peninsula
Hamilton, Greater Hamilton	Centre	Shopping Centre
Shopping Centre	Oshawa, Oshawa Shopping	Windsor, Dorwin Shopping
Kitchener	Centre	Centre
Kitchener, Fairview Park		
Shopping Centre		

Grafton Stores

Brantford	London	St. Catharines
Dundas	Owen Sound	Woodstock
Hamilton	Peterborough	

Ross Stores

Guelph, G. B. Ryan	Oakville, Hopedale Shopping	Trenton
Lindsay	Centre	Welland

Other

Galt	London
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Leased Departments

Eastern Region — Supervisor: D. J. Charlebois

St. John's, Newfoundland	Granby, Quebec	Montreal, Laval, Quebec
Sydney, Nova Scotia	Montreal, Brossard, Quebec	Sherbrooke, Quebec
Saint John, New Brunswick		

Ontario Region — Supervisor: L. Snider

Toronto, Agincourt Mall	Kingston	Sault Ste. Marie
Brantford	Kitchener	Sudbury
Hamilton	London	Windsor (2)

Western Region — Supervisor: E. C. Frederick

Transcona, Manitoba	Calgary, Alberta (2)	Vancouver, British Columbia
Regina, Saskatchewan	Edmonton, Alberta (2)	Victoria, British Columbia



1. A view of the clothing area of our section in a competitive department store.

2. 1967 Ontario Judy. Award winner for merchandising excellence.

3. Exterior of the Jack Fraser Store at Yorkdale—Canada's most successful shopping centre.

4. Interior of Graftons recently remodelled Owen Sound store.

1



2



3



4

AR39

of reports.
water details men's wear
in its own stores and in local
sections (107) dept stores



GRAFTON-FRASER

LIMITED

Established 1853

INTERIM REPORT

FOR THE

SIX MONTHS ENDED JULY 31, 1968

GRAFTON - FRASER LIMITED

Operating

GRAFTON'S LIMITED STORES
JACK FRASER STORES
THE ROSS STORES
G. B. RYAN STORE

Administrative Offices

770 LAWRENCE AVE. W.
TORONTO 19, ONTARIO
TEL. 787-1601

To the Shareholders:

The unaudited Consolidated, Comparative Statement of Earnings and the Statement of Source and Application of Funds for the six-month periods ended July 31, 1968 and 1967, are presented on the following pages.

During the period we experienced a sales increase of 24.6%. This was made possible by increased sales on a store to store basis, and eight new leased departments which were not operating during the comparable period a year ago.

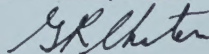
All divisions have improved their earnings this year to date, notwithstanding unfavourable weather in Ontario in May and June. This has resulted in a favourable profit in the first six months as compared to a fairly substantial loss in the comparable period a year ago.

Four leased departments have been opened so far, and one leased department and two new conventional stores will be opened in the fall.

We do not expect the same percentage increase of sales for the balance of this year compared to the same period of the previous year, nor the same percentage increase in earnings. However, we do anticipate a satisfactory last half which will result in substantially improved earnings for the year.

Dundas, Ontario, September 3, 1968

G. R. Chater, President



GRAFTON-FRASER LIMITED

and subsidiary company

INTERIM CONSOLIDATED STATEMENT OF INCOME

Six Months ended July 31, 1968
(with comparative figures for 1967)

	1968	1967
Sales	\$ 11,020,902.	\$ 8,845,643.
Income (loss) before undernoted items	313,812.	(299,978.)
Income taxes payable (recoverable)	157,000.	(96,700.)
Minority interest in loss of subsidiary	(773.)	(4,051.)
	156,227.	(100,751.)
Net Income (Loss) for Period	157,585.	(199,227.)

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Six Months ended July 31, 1968
(with comparative figures for 1967)

Source of Funds	1968	1967
Operations		
Net income (loss) for period	157,585.	(199,227.)
Add depreciation	63,376.	64,128.
	220,961.	(135,099.)
Proceeds from sale of notes		540,000.
Proceeds from sale of shares		349,543.
	220,961.	754,444.
Application of Funds		
Additions to fixed assets	66,157.	366,018.
Decrease in other liabilities	125,000.	
Increase in non-current assets		9,597.
Dividends on preference shares	28,851.	21,848.
Minority interest in loss of subsidiary	773.	4,051.
	220,781.	401,514.
Increase in Working Capital for the Period	180.	352,930.

Subject to year-end audit and adjustments.

GRAFTON-FRASER LIMITED

66 RETAIL LOCATIONS SERVING CANADIANS FROM COAST TO COAST

Jack Fraser Stores — Metropolitan Toronto

Agincourt Shopping Mall	Eglinton Square	Pape and Danforth
Cedar Heights Shopping Centre	Kipling Heights Shopping Centre	Weston Road
Eglinton — West Side Mall	Northtown Shopping Centre	Yorkdale Shopping Centre

Outside Metropolitan Toronto

Applewood Village	Newmarket, Newmarket Plaza
Belleville	Oakville
Dundas, University Plaza	Oakville, Hopedale Shopping Centre
Hamilton, Greater Hamilton Shopping Centre	Oshawa, Oshawa Shopping Centre
Kitchener	Richmond Hill, Richmond Heights Shopping Centre
Kitchener, Fairview Park Shopping Centre	Sault Ste. Marie, Market Mall
London, Argyle Mall	St. Catharines, Niagara Peninsula Shopping Centre
London, Wellington Square	Windsor, Dorwin Shopping Centre

Grafton Stores

Brantford	London	St. Catharines
Dundas	Owen Sound	Woodstock
Hamilton	Peterborough	

Ross Stores

Guelph, G. B. Ryan	Oakville, Hopedale Shopping Centre	Trenton
Lindsay		Welland

Leased Departments

Victoria, British Columbia	London, Ontario	Cornwall, Ontario
Vancouver, British Columbia	Galt, Ontario	Montreal, Brossard, Quebec
Calgary, Alberta (2)	Brantford, Ontario	Montreal, Laval, Quebec
Edmonton, Alberta (2)	Kitchener, Ontario	Granby, Quebec
Lethbridge, Alberta	Hamilton, Ontario	Sherbrooke, Quebec
Regina, Saskatchewan	Sudbury, Ontario	Saint John, New Brunswick
Transcona, Manitoba	Toronto, Agincourt Mall	Sydney, Nova Scotia
Sault Ste. Marie, Ontario	Kingston, Ontario	St. John's, Newfoundland
Windsor, Ontario (2)		
